Test Series: October, 2020

MOCK TEST PAPER

FINAL (NEW) COURSE

PAPER 1: FINANCIAL REPORTING

ANSWERS

1. (a) Consolidated Balance Sheet of PN Ltd. and its subsidiary SR Ltd. as on 31 March 2020

Particulars	Note No.	₹
I. Assets		
(1) Non-current assets		
(i) Property, Plant & Equipment	1	26,83,200
(ii) Goodwill	2	89,402
(2) Current Assets		
(i) Inventories	3	5,34,800
(ii) Financial Assets		
(a) Trade Receivables	4	3,11,300
(b) Cash & Cash equivalents	5	70,100
Total Assets		36,88,802
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	6	15,60,000
(ii) Other Equity	7	11,39,502
(2) Non-controlling Interest (W.N.3)		5,07,300
(3) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	8	2,12,400
(b) Short term borrowings	9	2,69,600
Total Equity & Liabilities		36,88,802

Notes to accounts

			₹
1.	**Property, Plant & Equipment**		
	Land & Building (4,68,000 + 5,61,600 + 3,12,000)	13,41,600	
	Plant & Machinery (W.N.5)	13,41,600	26,83,200
2.	**Goodwill (W.N.4)**		89,402
3.	**Inventories**		
	PN Ltd.	3,74,400	
	SR Ltd. (1,13,600 +46,800)	1,60,400	5,34,800
4.	**Trade Receivables**		
	PN Ltd.	1,86,500	
	SR Ltd.	1,24,800	3,11,300
5.	**Cash & Cash equivalents**		
	PN Ltd.	45,200	
	SR Ltd.	24,900	70,100

8.	**Trade Payables**		
	PN Ltd.	1,46,900	
	SR Ltd. (34,300 + 31,200)	65,500	2,12,400
9.	**Short-term borrowings**		
	PN Ltd.	2,49,600	
	SR Ltd.	20,000	2,69,600

Statement of Changes in Equity:

6. **Equity share Capital**

Balance at the beginning of the reporting period ₹	Changes in Equity share capital during the year ₹	Balance at the end of the reporting period ₹
15,60,000	0	15,60,000

7. **Other Equity**

	Reserves & Surplus			Total
	Capital reserve ₹	Retained Earnings ₹	Other Reserves ₹	₹
Balance at the beginning of the reporting period		0	9,36,000	9,36,000
Total comprehensive income for the year	0	1,78,400		1,78,400
Dividends	0	(52,416)		(52,416)
Total comprehensive income attributable to parent (W.N.2)	0	77,518		77,518
Gain on Bargain purchase		0		0
Balance at the end of reporting period		2,03,502	9,36,000	11,39,502

Working Notes:

1. **Adjustments of Fair Value**

The Plant & Machinery of SR Ltd. would stand in the books at ₹ 4,44,600 on 1 October 2019, considering only six months' depreciation on ₹$\left(\frac{4,21,200}{90\%}\right)$= 4,68,000; total depreciation being $₹\,4,68,000 \times 10\% \times \frac{6}{12} = 23,400$. Being the fair value of the asset ₹ 6,24,000, there is an appreciation to the extent of ₹ 1,79,400 (₹ 6,24,000 – ₹ 4,44,600).

Acquisition date profits of SR Ltd. ₹

Reserves on 1.4.2019	3,12,000
Profit& Loss Account Balance on 1.4.2019	93,600
Profit for 2019-2020: Total [₹2,55,800-(93,600-74,880)]x 6/12 i.e. ₹ 1,18,540 upto 1.10.2019	1,18,540
Total Appreciation	5,07,000*
Total	10,31,140
Holding Co. Share (70%)	7,21,798
NCI	3,09,342

*Appreciation = Land & Building ₹ 3,12,000 + Inventories ₹ 46,800+ Plant & Machinery ₹ 1,79,400 –Trade Payables (₹ 31,200) = ₹ 5,07,000

2. Post-acquisition profits of SR Ltd. ₹

Profit after 1.10.2019 [2,55,800 - (93,600-74,880)] x 6/12	1,18,540
Less: 10% depreciation on ₹6,24,000 for 6 months less depreciation already charged for 2nd half of 2019-2020 on ₹4,68,800 (ie 31,200-23,400)	(7,800)
Total	1,10,740
Share of holding Co. (70%)	77,518
Share of NCI (30%)	33,222

3. Non-controlling Interest ₹

Par value of 1872 shares	1,87,200
Add: 30% Acquisition date profits [(10,31,140 – 74,880) x 30%]	2,86,878
30% Post-acquisition profits [W.N.2]	33,222
	5,07,300

4. Goodwill ₹

Amount paid for 4,368 shares		12,48,000
Less : Par value of shares	4,36,800	
Acquisition date profits-share of PN Ltd. (W.N.1)	7,21,798	(11,58,598)
Goodwill		89,402

5. Value of Plant & Machinery: ₹

PN Ltd.		7,48,800
SR Ltd.	4,21,200	
Add: Appreciation on 1.10.2019	1,79,400	
	6,00,600	
Add: Depreciation for 2nd half charged on pre-revalued value	23,400	
Less: Depreciation on ₹ 6,24,000 for 6 months	(31,200)	5,92,800
		13,41,600

6. Consolidated Profit & Loss account ₹

PN Ltd. (as given)	1,78,400	
Less: Dividend	(52,416)	1,25,984
Share of PN Ltd. in post-acquisition profits (W.N.2)		77,518
		2,03,502

(b) Costs incurred in creating computer software, should be charged to research & development expenses when incurred until technical feasibility/asset recognition criteria have been established for the product. Here, technical feasibility is established after completion of detailed program design.

In this case, ₹ 5,30,000 (salary cost of ₹ 1,50,000, program design cost of ₹ 3,00,000 and coding and technical feasibility cost of ₹ 80,000) would be recorded as expense in Profit and Loss since it belongs to research phase.

Cost incurred from the point of technical feasibility are capitalised as software costs. But the conference cost of ₹60,000 would be expensed off.

In this situation, direct cost after establishment of technical feasibility of ₹ 3,00,000 and testing cost of ₹ 90,000 will be capitalised.

The cost of software capitalised is = ₹ (3,00,000 + 90,000) = ₹ 3,90,000.

2. (a) Carrying amount of asset on 31 March 2020 = ₹ 6,60,000

Calculation of Value in Use

Year ended	Cash flow ₹	Discount factor @ 9%	Amount ₹
31st March, 2021	2,76,000	0.9174	2,53,202
31st March, 2022	1,92,000	0.8417	1,61,606
31st March, 2023	1,20,000	0.7722	92,664
31st March, 2024	1,14,000	0.7084	80,758
		Total (Value in Use)	**5,88,230**

Calculation of Recoverable amount

Particulars	Amount (₹)
Value in use	5,88,230
Fair value less costs of disposal (6,00,000 – 96,000)	5,04,000
Recoverable amount (Higher of value in use and fair value less costs of disposal)	5,88,230

Calculation of Impairment loss

Particulars	Amount (₹)
Carrying amount	6,60,000
Less: Recoverable amount	(5,88,230)
Impairment loss	71,770

Calculation of Revised carrying amount

Particulars	Amount (₹)
Carrying amount	6,60,000
Less: Impairment loss	(71,770)
Revised carrying amount	5,88,230

Calculation of Revised Depreciation:

Revised carrying amount – Residual value

Remaining life = (5,88,230 - 0) / 4 = ₹ 1,47,058 per annum

Set off of Impairment loss:

The impairment loss of ₹ 71,770 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of ₹ 36,000 is eliminated against impairment loss, and the remainder of the impairment loss ₹ 35,770 (₹ 71,770 – ₹ 36,000) is charged to profit and loss.

Treatment of Government compensation:

Any compensation by government would be accounted for as such when it becomes receivable. At this time, the government has only stated that it may reimburse the company and therefore credit should not be taken for any potential government receipt.

(b) Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets ₹	Defined benefit obligation ₹
Fair value/present value as at 1st April 2019	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return or gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at 31 March 2020	23,80,000	27,20,000

In the Statement of Profit and loss, the following will be recognized:

	₹
Current service cost	5,10,000
Net interest on net defined liability (₹ 1,06,250 – ₹ 1,02,000)	4,250

Defined benefit re-measurements recognized in Other Comprehensive Income:

	₹
Loss on defined benefit obligation	(2,33,750)
Gain on plan assets	68,000
	(1,65,750)

In the Balance sheet, the following will be recognized :

	₹
Net defined liability (₹ 27,20,000 – ₹ 23,80,000)	3,40,000

(c) (i) At the time of initial recognition

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 40,000, discounted at 12% annuity (40,000 x 3.605)	1,44,200
Present value of ₹ 5,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (5,00,000 x 0.567)	2,83,500
	4,27,700
Equity component	
(₹ 5,00,000 – ₹ 4,27,700)	72,300
Total proceeds	5,00,000

Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

		₹	₹
Bank	Dr.	5,00,000	
To 8% Debentures (Liability component)			4,27,700
To 8% Debentures (Equity component)			72,300
(Being Debentures are initially recorded a fair value)			

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	*Fair Value @ 9%*	*Difference*
	₹	₹	₹
Liability component			
Present value of 2 remaining yearly interest payments of ₹ 40,000, discounted at 12% and 9%, respectively	67,600	70,360	
Present value of ₹ 5,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively	3,98,500	4,21,000	
Liability component	4,66,100	4,91,360	(25,260)
Equity component	72,300	33,640*	38,660
Total	**5,38,400**	**5,25,000**	**13,400**

*(5,25,000 – 4,91,360) = 33,640

Journal Entries

		₹	₹
8% Debentures (Liability component)	Dr.	4,66,100	
Profit and loss A/c (Debt settlement expense)	Dr.	25,260	
To Bank A/c			4,91,360
(Being the repurchase of the liability component recognised)			
8% Debentures (Equity component)	Dr.	72,300	
To Bank A/c			33,640
To Reserves and Surplus A/c			38,660
(Being the cash paid for the equity component recognised)			

3. (a) Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed of directly the previously held equity interest.

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(₹ in crore)	
		Debit	**Credit**
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	
Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash			13,500
To Investment in associate (4,320 + 378 + 54 + 27)			4,779
To Retained earnings (W.N.2)			27
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)			135
(Recognition of acquisition of Shaun Ltd.)			

Working Notes:

1. **Calculation of Goodwill**

	₹ in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd.	4,860
Total consideration	18,360
Less: Fair value of identifiable net assets acquired	(16,200)
Goodwill	2,160

2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 27 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

3. **The gain on the previously held equity interest in Shaun Ltd. is calculated as follows:**

	₹ in crore
Fair Value of 30% interest in Shaun Ltd. at 1st April, 2020	4,860
Carrying amount of interest in Shaun Ltd. at 1st April, 2020	(4,779)
	81
Unrealised gain previously recognised in OCI	54
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	135

(b) In accordance with paragraph 72 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', a constructive obligation to restructure arises only when an entity has detailed formal plan for restructuring identifying the business or part of business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented; and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Further, paragraph 75 of Ind AS 37 provides that a management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

In the given case, since COVID-19 pandemic impact started during March 2020, it is likely that the senior management started drawing up the plan for restructuring some of its business activities after the end of the reporting period, i.e., 2019-2020. If that be so, as per Ind AS 37, the management decisions subsequent to reporting date do not give rise to constructive obligation as of reporting date and no provision is required for restructuring costs as at 31 March 2020.

In this regard, paragraph 75 of Ind AS 37 provides that if an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under Ind AS 10, Events after the Reporting Period, if the restructuring is material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

(c) Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. KK Ltd. and YK Ltd. should recognize financial asset and liability, respectively, at the amount of loan given (assuming that loan is repayable within a year). Upon, repayment, both the entities should reverse the entries that were made at the origination.

Journal entries in the books of KK Ltd.

At origination			
Loan to YK Ltd. A/c	Dr.	₹ 10,00,000	
To Bank A/c			₹ 10,00,000
On repayment			
Bank A/c	Dr.	₹ 10,00,000	
To Loan to YK Ltd. A/c			₹ 10,00,000

Journal entries in the books of YK Ltd.

At origination			
Bank A/c	Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c			₹ 10,00,000
On repayment			
Loan from KK Ltd. A/c	Dr.	₹ 10,00,000	
To Bank A/c			₹ 10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan receivable and loan payable will get set off.

Scenario (ii)

Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

If a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. The difference in fair value and transaction cost will treated as investment in Subsidiary YK Ltd.

Both KK Ltd. and YK Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of ₹ 10,00,000 payable at the end of 3 years using discounting factor of 10%. Since the question mentions fair value of the loan at initial recognition as ₹ 8,10,150, the same has been considered. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Journal entries in the books of KK Ltd. (for one year)

At origination			
Loan to YK Ltd. A/c	Dr.	₹ 8,10,150	
Investment in YK Ltd. A/c	Dr.	₹ 1,89,850	
To Bank A/c			₹ 10,00,000
During periods to repayment- to recognise interest			
Year 1 – Charging of Interest			
Loan to YK Ltd. A/c	Dr.	₹ 81,015	
To Interest income A/c			₹ 81,015
Transferring of interest to Profit and Loss			
Interest income A/c	Dr.	₹ 81,015	
To Profit and Loss A/c			₹ 81,015
On repayment			
Bank A/c	Dr.	₹ 10,00,000	
To Loan to YK Ltd. A/c			₹ 10,00,000
Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination.			

Journal entries in the books of YK Ltd. (for one year)

At origination			
Bank A/c	Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c			₹ 8,10,150
To Equity Contribution in KK Ltd. A/c			₹ 1,89,850
During periods to repayment- to recognise interest			
Year 1			
Interest expense A/c	Dr.	₹ 81,015	
To Loan from KK Ltd. A/c			₹ 81,015
On repayment			
Loan from KK Ltd. A/c	Dr.	₹ 10,00,000	
To Bank A/c			₹ 10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

Scenario (iii)

Generally, a loan which is repayable when funds are available, cannot be stated as loan repayable on demand. Rather the entity needs to estimate the repayment date and determine its measurement accordingly by applying the concept prescribed in Scenario (ii).

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

In case the subsidiary YK Ltd. is planning to grant interest free loan to KK Ltd., then the difference between the fair value of the loan on initial recognition and its nominal value should be treated as dividend distribution by YK Ltd. and dividend income by the parent KK Ltd.

4. Transition date (opening) IND-AS BALANCE SHEET of SHAURYA LIMITED

As at 1 April 2018

(All figures are in '000, unless otherwise specified)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance sheet
ASSETS			
Non-current assets			
Property, plant and equipment (Note 1)	20,00,000	5,00,000	25,00,000
Goodwill (Note 2)	1,00,000	-	1,00,000
Other Intangible assets (Note 3)	2,00,000	-	2,00,000
Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investment (Note 5)	18,00,000	30,000	18,30,000
Trade receivables (Note 6)	9,00,000	-	9,00,000
Cash and cash equivalents/Bank	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	50,000	-	50,000
TOTAL ASSETS	**85,00,000**	**5,40,000**	**90,40,000**
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	7,90,000	32,90,000
Non-current liabilities			
Financial liabilities			
Borrowings (Note-7)	4,50,000	-	4,50,000

Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note-8)	12,00,000	(2,00,000)	10,00,000
TOTAL EQUITY AND LIABILITIES	**85,00,000**	**5,40,000**	**90,40,000**

OTHER EQUITY

	Retained Earnings (₹)	Fair value reserve	Total
As at 31 March, 2018	27,90,000 (W.N.1)	5,00,000	32,90,000

Working Note 1:

Retained earnings balance:	
Balance as per Earlier GAAP	25,00,000
Transitional adjustment due to loan's fair value	10,000
Transitional adjustment due to increase in mutual fund's fair value	30,000
Transitional adjustment due to decrease in deferred tax liability	50,000
Transitional adjustment due to decrease in provisions (dividend)	2,00,000
Total	27,90,000

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not recognized as liability as at the Balance Sheet date.

Note 1: Property, plant & Equipment:

As per para D5 of Ind AS 101,an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible assets:

Para D7 read with D6 of Ind AS 101 states that a first-time adopter may elect to use a previous GAAP revaluation at, or before, the date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost in accordance with Ind AS, adjusted to reflect, for example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

Accordingly, ₹ 50,000 would be the gross carrying amount of loan and difference of ₹ 10,000 (₹ 50,000 – ₹ 40,000) would be adjusted to retained earnings.

Note 5: Mutual Funds:

Para 29 of Ind AS 101 states that an entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

D19A states that an entity may designate a financial asset as measured at fair value through profit or loss in accordance with Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

Note 6: Trade receivables:

Para 14 of Ind AS 101 states that an entity's estimates in accordance with Ind ASs at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Para 15 of Ind AS 101 further states that an entity may receive information after the date of transition to Ind ASs about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with Ind AS 10, Events after the Reporting Period.

The entity shall not reflect that new information in its opening Ind AS Balance Sheet (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 March 2019.

Note 7: Government Grant:

Para 10A of Ind AS 20 states that the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109, Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for in accordance with this Standard.

However, Para B10 of Ind AS 101 states, a first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, *prospectively* to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

Note 8: Dividend

Dividend should be deducted from retained earnings during the year when it has been declared and approved. Accordingly, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

5. **(a)** As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

Analysis of expenditure:

Date	**Expenditure (₹)**	**Amount allocated in general borrowings (₹)**	**Weighted for period outstanding (₹)**
1 April 2019	2,00,000	0	0
30 June 2019	6,00,000	1,00,000*	1,00,000 × 9/12 = 75,000
31 Dec 2019	12,00,000	12,00,000	12,00,000 × 3/12 = 3,00,000
31 March 2020	2,00,000	2,00,000	2,00,000 × 0/12 = 0
Total	22,00,000		3,75,000

*Specific borrowings of ₹ 7,00,000 fully utilized on 1 April & on 30 June to the extent of ₹ 5,00,000 hence remaining expenditure of ₹ 1,00,000 allocated to general borrowings.

The expenditure rate relating to general borrowings should be the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

$$\text{Capitalisation rate} = \frac{(10,00,000 \times 12.5\%) + (15,00,000 \times 10\%)}{10,00,000 + 15,00,000} = 11\%$$

Borrowing cost to be capitalized:	**Amount (₹)**
On specific loan	65,000
On General borrowing (₹ 3,75,000 × 11%)	41,250
Total	1,06,250
Less: Interest income on specific borrowings	(20,000)
Amount eligible for capitalization	86,250
Therefore, the borrowing costs to be capitalized are ₹ 86,250.	

(b) Following adjustments /rectifications are required to be done

1. Reserve for foreseeable loss for ₹ 400 lakh, due within 6 months, should be a part of provisions. Hence, it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of ₹ 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh – ₹ 1,200 lakh) will be added to the operating cost of the entity.
4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2019-2020. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

Balance Sheet of Abraham Ltd.

For the year ended 31 March 2020

	Note No.	*(₹ in lakh)*
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		300
TOTAL		9,900
EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000

Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	190
TOTAL		9,900

Statement of Profit and Loss of Abraham Ltd.

For the year ended 31st March, 2020

	Note No.	*(₹ in lakh)*
Revenue from operations		6,000
Other income		300
Total income		6,300
Expenses		
Operating costs	9	3,199
Change in inventories cost		300
Employee benefits expense		1,200
Depreciation		450
Total expenses		5,149
Profit before tax		1,151
Tax expense		(201)
Profit for the period		950
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of ₹ 10 each)		100 lakh

Statement of Changes in Equity of Abraham Ltd.

For the year ended 31 March 2020

3. Equity Share Capital ***(₹ in lakh)***

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,000	0	1,000

4. Other Equity ***(₹ in lakh)***

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year	500*	550	1,050
Total comprehensive income for the year		950	950
Balance at the end of the year	500	1,500	2,000

***Note:** Capital reserve given in the Note 1 of the question is assumed to be brought forward from the previous year. However, alternatively, if it may be assumed as created during the year.

1. Deferred Tax *(₹ in lakh)*

Deferred Tax Asset	700
Deferred Tax Liability	400
	300

2. Trade Receivables *(₹ in lakh)*

Trade receivables considered good		1,065
Trade receivables which have significant increase in credit risk	40	
Less: Provision for doubtful debts	(5)	35
Total		1,100

5. Long Term Borrowings *(₹ in lakh)*

Term Loan from Bank (5,700 - 700)	5,000
Total	5,000

6. Other Financial Liabilities *(₹ in lakh)*

Unclaimed dividends	10
Interest on term loan	700
Total	710

7. Short-term provisions *(₹ in lakh)*

Provisions	300
Foreseeable loss against a service contract	400
Total	700

8. Other Current Liabilities *(₹ in lakh)*

Billing in Advance	150
Other	40
Total	190

9. Dividends not recognised at the end of the reporting period

At year end, the directors have recommended the payment of dividend of 10% ie ₹ 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

6. **(a)** (i) The land and government grant should be recognized by A Ltd. at fair value of ` 12,00,000 and this government grant should be presented in the books as deferred income. Alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. Land will be shown in the financial statements at ₹ 1)

(ii) As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

(iii) ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

(iv) ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh/10 years] should be credited to profit and loss each year over period of 10 years. Alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. The machinery will be recognised at ₹ 70 lakh (₹ 80 lakh - ₹ 10 lakh). Reduced depreciation will be charged to the Statement of Profit or Loss.

(v) As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

(b) (a) Points earned on ₹ 10,00,000 @ 10 points on every ₹ 500 = [(10,00,000 / 500) x 10] = 20,000 points.

Value of points = 20,000 points x ₹ 0.5 each point = ₹ 10,000

Revenue recognized for sale of goods	₹ 9,90,099	[10,00,000 x (10,00,000/10,10,000)]
Revenue for points deferred	₹ 9,901	[10,00,000x (10,000/10,10,000)]

Journal Entry

		₹	₹
Bank A/c	Dr.	10,00,000	
To Sales A/c			9,90,099
To Liability under Customer Loyalty programme			9,901

(b) Points earned on ₹ 50,00,00,000 @ 10 points on every ₹ 500 = [(50,00,00,000/500) x 10] = 1,00,00,000 points.

Value of points = 1,00,00,000 points x ₹ 0.5 each point = ₹ 50,00,000

Revenue recognized for sale of goods = ₹ 49,50,49,505 [50,00,00,000 x (50,00,00,000/ 50,50,00,000)]

Revenue for points = ₹ 49,50,495 [50,00,00,000 x (50,00,000/ 50,50,00,000)]

Journal Entry in the year 2019

		₹	₹
Bank A/c	Dr.	50,00,00,000	

To Sales A/c			49,50,49,505
To Liability under Customer Loyalty programme			49,50,495
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	42,11,002	
To Sales A/c			42,11,002
(On redemption of (100 lakhs -18 lakhs) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year 18,00,000 x 80% = 14,40,000 points

Total points to be redeemed within 2 years = [(1,00,00,000-18,00,000) + 14,40,000]

= 96,40,000

Revenue to be recognised with respect to discounted point = 49,50,495 x (82,00,000/96,40,000) = 42,11,002

(c) Revenue to be deferred with respect to undiscounted point in 2019-2020 = 49,50,495 – 42,11,002 = 7,39,493

(d) In 2020-2021, KK Ltd. would recognize revenue for discounting of 60% of outstanding points as follows:

Outstanding points = 18,00,000 x 60% = 10,80,000 points

Total points discounted till date = 82,00,000 + 10,80,000 = 92,80,000 points

Revenue to be recognized in the year 2020-2021 = [{49,50,495 x (92,80,000 / 96,40,000)} - 42,11,002] = ₹ 5,54,620.

Liability under Customer Loyalty Programme	Dr.	₹ 5,54,620	
To Sales A/c			₹ 5,54,620
(On redemption of further 10,80,000 points)			

The Liability under Customer Loyalty programme at the end of the year 2020-2021 will be ₹ 7,39,493 – ₹ 5,54,620 = ₹ 1,84,873.

(e) In the year 2021-2022, the merchant will recognize the balance revenue of ₹ 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

Liability under Customer Loyalty programme	Dr.	₹ 1,84,873	
To Sales A/c			₹ 1,84,873
(On redemption of balance points)			

(c) Allocation of proceeds of the bond issue:

Liability component (W.N.1)	₹ 18,47,720
Equity component	₹ 1,52,280
	₹ 2,000,000

The liability and equity components would be determined in accordance with Ind AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

Basic earnings per share Year 1:

$$\frac{₹\ 10,00,000}{12,00,000} = ₹\ 0.83 \text{ per ordinary share}$$

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$\frac{₹\ 10,00,000 + ₹\ 1,66,295\ (\text{W.N.2})}{12,00,000 + 5,00,000\ (\text{W.N.3})} = ₹\ 0.69 \text{ per ordinary share}$$

Working Notes:

1. This represents the present value of the principal and interest discounted at 9%

   1,20,000 x 2.531 = Rs. 3,03,720

   20,00,000 x 0.772 = Rs. 15,44,000

   Rs. 18,47,720

2. Profit is adjusted for the accretion of ₹ 1,66,295 (₹ 18,47,720 × 9%) of the liability because of the passage of time. However, it is assumed that interest @ 6% for the year has already been adjusted.

3. 5,00,000 ordinary shares = 250 ordinary shares x 2,000 convertible bonds

OR

XYZ Ltd. would include the total revenue of ₹ 68,00,000 (₹ 60,00,000 + ₹ 8,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2020 within its revenue and show ₹ 18,00,000 within trade receivables at 31 March 2020.

Mrs. P would be regarded as a related party of XYZ Ltd. because she is a close family member of one of the key management personnel of XYZ Ltd.

From 1st June 2019, ABC Ltd. would also be regarded as a related party of XYZ Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Since ABC Ltd. is a related party with whom XYZ Ltd. has transactions, XYZ Ltd. should disclose:

– The nature of the related party relationship.

– The revenue of ₹ 60,00,000 from ABC Ltd. since 1st June 2019.

– The outstanding balance of ₹ 18,00,000 at 31st March 2020.

In the current circumstances it may well be necessary for XYZ Ltd. to also disclose the favourable terms under which the transactions are carried out.